

Comments on Borio, Drehmann and Tsatsaronis

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- Broad agreement on the principles (the toolkit, value in a crisis, and additional benefits) -- very useful paper.
- Alternative perspective on early warnings
- Amplification on doing proposition 5, “doing them right”

Early Warnings

- Agree that having regulators announce scary scenarios is a non-starter
- But how about using the living wills to generate the scenarios?
 - Would force the firms to own the process
 - Would naturally incorporate market stress scenarios
 - Would naturally include liability side of the balance sheets and “run” risk

Doing them right

- I worry about judgmental adjustments to scenarios, makes the process even more political
- Mandating a business resolution officer is a better way to force “buy in” and eliminate risk-spotting fatigue
- National boundaries problem is super-high priority, as is the extension to market stresses.